



# FOCUS ON THE FISC

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## FROM THE DESK OF THE FISCAL OFFICER

*Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. This issue provides information on the January meeting of the Revenue Estimating Conference and the second round of the FY 15 Mid-Year Deficit Reduction Plan, as well as a summary of both reduction plans. Also discussed are Outstanding Fund Balance Transfers, Office of Group Benefits updates and Department of Corrections savings.*

*The March edition of Focus on the Fisc will provide an overview of the 2016 Executive Budget and will be the last Focus on the Fisc of FY 15.*

## FOCUS POINTS

### Revenue Forecast Reductions: REC meetings of 11/14/15 and 1/26/2015

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The Revenue Estimating Conference (REC) has met twice this fiscal year, on November 14, 2014 and again on January 26, 2015, and at both meetings reduced overall state tax revenue forecasts for the current fiscal year (FY 15) and the ensuing fiscal year (FY 16) relative to the forecasts in place at the start of the current fiscal year which was established at the May 19, 2014 REC meeting. The combined results of the two meetings were state general fund tax forecast reductions of \$297 million for FY 15 and \$405 million for FY16, respectively. These forecast reductions have significantly been the result of dramatically falling oil prices, with consequent effects on mineral revenue collections and projections. However, the bulk of the projected funding shortfall for the FY 16 budget is not related to oil prices. The FY 16 funding shortfall was projected at nearly \$1.2 billion before any oil price revisions were considered. Nearly \$1 billion of that shortfall is associated with the use of ad hoc resources supporting the current FY 15 budget that will have to be replaced for the FY 16 budget. In addition, current FY 15 shortfalls have been financed, in large part, with additional ad hoc resources that add to

the funding shortfall for FY16. The drop in mineral revenue projections has exacerbated the FY16 funding shortfall, comprising about 25% of that shortfall. Table 1 (found on page 2) displays the major forecast revisions for FY 15 and FY 16 as of the January 26, 2015 REC meeting compared to the forecasts in place as of the start of the current fiscal year.

Along with forecast reductions for FY 15 and FY 16, comparable reductions have been made in the forecast baseline out-years. The forecast for FY 17 is now \$341 million lower, and for FY18 \$527 million lower. A forecast for FY 19 has now been appended onto the outlook as well. These overall forecast baseline reductions largely reflect a new lower oil price baseline that drops sharply in FY 15 to \$69.36 per barrel, bottoms out in FY16 at \$59.64 per barrel, and then climbs to nearly \$70 per barrel by FY 19. This new price path for oil amounts to nearly a \$12 drop since the REC meeting in November, and a \$23 drop since the May 2014 meeting that started the current fiscal year, and was held before oil prices began their precipitous drop.

Table 1

## MAJOR REC REVENUE FORECAST REVISIONS

As of January 26, 2015

FY15

FY16

Revenue Source (millions \$)	As of 5/19/14	As of 1/26/15	Forecast Change	As of 5/19/14	As of 1/26/15	Forecast Change
Personal Income	\$2,932.4	\$2,869.4	-\$63.0	\$3,107.7	\$2,987.8	-\$119.9
Sales, General	\$2,695.7	\$2,700.6	\$4.9	\$2,766.3	\$2,769.5	\$3.2
Corporate	\$350.8	\$350.0	-\$0.8	\$363.0	\$350.0	-\$13.0
Severance	\$808.5	\$681.4	-\$127.1	\$802.7	\$508.2	-\$294.5
Royalty	\$482.6	\$334.3	-\$148.3	\$467.1	\$385.4	-\$81.7
Gaming	\$771.4	\$802.1	\$30.7	\$771.4	\$790.6	\$19.2
Sales, Vehicle	\$380.1	\$387.2	\$7.1	\$386.9	\$399.2	\$12.3
Premium Tax	\$449.8	\$469.2	\$19.4	\$457.9	\$532.7	\$74.8
Earnings	\$42.1	\$30.0	-\$12.1	\$39.3	\$32.0	-\$7.3
All Other	\$1,727.0	\$1,767.7	\$40.7	1738.3	\$1,778.7	\$40.4
Total Tax	\$10,640.4	\$10,391.9	-\$248.5	\$10,900.6	\$10,534.1	-\$366.5
Dedications	\$1,957.9	\$2,006.3	\$48.4	\$1,978.8	\$2,017.1	\$38.3
General Fund	\$8,682.5	\$8,385.6	-\$296.9	\$8,921.8	\$8,517.0	-\$404.8
Transfer from TTF to General Fund			\$22.5			

The total general fund downgrades are largely the effect of mineral revenue reductions, but also weakness in the personal income tax. These reductions are partially offset by upgrades to other revenue sources. Increased dedications eat up some of the offsetting upgrades, with the net of all revisions reflected in the general fund bottom line. While masked by the REC switching to the LFO forecast for the November 2014 and January 2015 meetings from the DOA forecast at the May 2014 meeting, the forecast for general sales tax receipts is actually helping materially. This tax finally appears to be gaining some growth traction this fiscal year after three years of essentially no growth. Gaming receipts have been revised upward largely on the early-December opening of the new riverboat in Lake Charles. This revision relies on a net expansion of the state gaming market, and that scenario is likely since the new boat is located close to the Texas border. However, net statewide market expansion is not assured. When a third boat was added to the Baton Rouge market in September 2012, that local market permanently expanded but the statewide market and total riverboat gaming receipts did not. Vehicle sales taxes are not as strong as the double-digit growth seen a couple of years ago, but is still a solid tax exhibiting more growth than expected earlier in the year. The insurance premium tax also continues to come in stronger than expected.

On the downside is the personal income tax. Sustained traction in that tax has yet to be exhibited. The filing season is beginning and refunds will be strong before payments dominate. Only modest growth is expected, but target growth has not occurred yet. The corporate tax forecasts are only marginally different, but performance can materially surprise on both the upside and downside in the last quarter of the fiscal year. General fund earnings also continue to weaken in the face of persistently low interest rates. Other net upgrades are essentially offset by comparable increases in dedications, leaving the tax-based general fund bottom line down by \$297 million for FY15 and \$405 million for FY 16.

In addition, the REC recognized a \$22.5 million transfer of Transportation Trust Fund monies to the general fund in FY 15 at the January 2015 meeting. This item is discussed in another article in this edition of the newsletter. This transfer was recognized as recurring revenue.

### Reducing Funding to Higher Education \$300 to \$400 M and DHH \$200 M to \$300 M Presents a Partial Solution

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As has been reported by the news media, the FY 16 SGF support of Higher Education may be reduced approximately \$300 M to \$400 M and the FY 16 SGF support of the Medicaid Program may be reduced \$200 M to \$300 M for a total FY 16 SGF reduction of approximately \$500 M to \$700 M. To the extent these reductions are actually included in the FY 16 Executive Budget Recommendation, there will still be an approximately \$900 M to \$1.1 B problem which must be addressed.

In previous editions of *Focus on the Fisc*, the Legislative Fiscal Office has reported to the legislature the potential financing replacement needs in FY 16. Upon approval of the Round 2 FY 15 Mid-Year Deficit

Reduction Plan, this number has grown to approximately \$1.2 B. In addition, since the beginning of the fiscal year the revenue forecast has been significantly reduced, which has resulted in a net SGF revenue loss for FY 16 of \$405 M for a total “real” problem of \$1.6 B SGF just to maintain the current level of state services (see Table 2). This problem does not include any potential additional funding increase needs such as TOPS enrollment growth, MFP student enrollment growth and/or health care/pharmacy utilization increases.

See the article titled Medicaid Outlook below by Shawn Hotstream that discusses the details of this specific issue relative to the Medicaid Program.

Table 2	
	FY 16
Financing Replacements (see Table 6 on page 7 of this document)	\$1,182.2
Oil Price Impact	\$405.0
	<b>\$1,587.2</b>

### Medicaid Outlook

Shawn Hotstream, Health & Hospitals Section Director, [hotstres@legis.la.gov](mailto:hotstres@legis.la.gov)

The FY 16 Medicaid Budget Request submitted by DHH reflects \$979 M in State General Fund (SGF) need. This is based largely on replacing approximately \$709 M in non-SGF resources that were used as a state match source to draw federal financial participation for payments to providers.

In addition, both the 1st and 2nd mid year deficit reduction solution added approximately \$114.5 M (Table 3) in revenues used as a state match source. The SGF reductions associated with mid year reductions are still built into the Medicaid budget, as the budget freeze date of December was prior to the both deficit solutions.

Table 3	
Significant non-SGF sources used as state match in FY 15	
<u>HB 1 Enrolled</u>	
\$156,539,178	2013 Amnesty Collections Fund
\$266,346,081	Overcollections Fund
\$232,916,144	Medicaid Trust Fund for Elderly revenues
\$655,801,403	
<u>1st Mid year Deficit solution</u>	
\$4,900,000	MATF
\$47,000,000	Overcollections Fund
\$23,448,257	Amnesty collections
\$6,601,110	Health Excellence Fund
\$81,949,367	
<u>2nd Mid Year solution</u>	
\$32,506,438	Overcollections Fund
<b>\$770,257,208</b>	<b>Total Non SGF state match revs. used in FY 15</b>

Note: Both the 1st and 2nd Mid year deficit BA-7 were amended by the Joint Legislative Committee on the Budget to reduce certain proposed Statutory Dedication replacement revenues. The removal of these funds from the proposed BA-7 resulted in additional cuts to Medical Vendor Payments, and may become a supplemental need (it is anticipated that these funds reduced from the original BA-7s will be appropriated to DHH through a supplemental bill instrument in FY 15.) To the extent funds are added in supplemental, the amount of non-SGF used as a state match source in FY 15 will increase.

### FY 16 Outlook

Due to the level of revenues likely needing to be replaced with state general fund or similar fund resources in order to maintain a standstill budget in FY 16, it is assumed the level of means of finance swap requested in the Budget will not be replaced entirely with State General Fund. As an illustrative example, a \$100 M state match source cut (or SGF means of finance swap) to Medicaid will still require an approximate \$600 M solution to maintain a standstill budget. This assumes no new efficiencies would be built into the Medicaid budget for FY 16.

### Illustration:

\$709 M – State General Fund match Means of Finance Swap for standstill budget

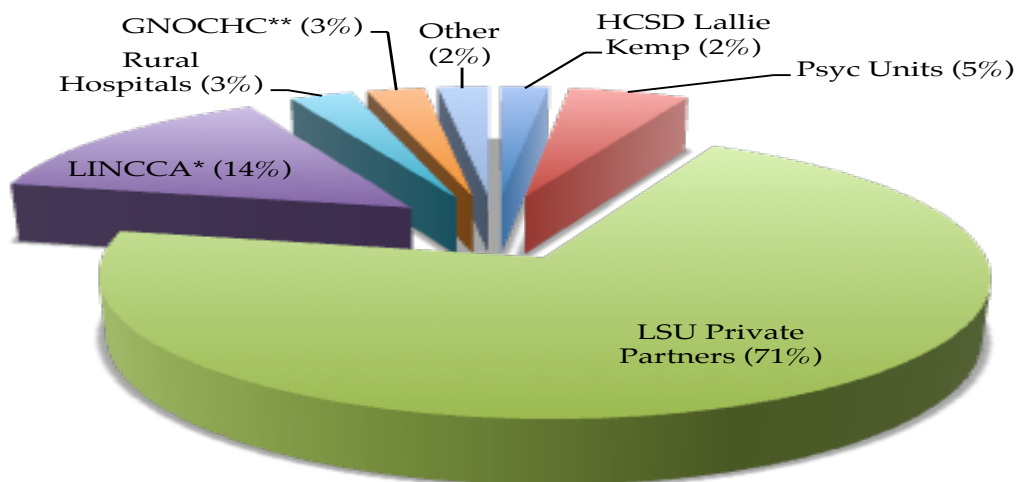
(\$100 M) - Means of Finance swap or cut solution

\$609 M - State match (SGF for other like resources) required for FY 16 standstill budget

Any SGF cut to Medical Vendor Payments (MVP) will have a match effect, resulting in the loss of federal matching funds. For Title XIX claims payments, the FY 16 budget is based on a blended federal match rate of 62.21% (37.83% state match). As an illustrative example, a \$100 M SGF match reduction equates to a loss of approximately \$164 M in federal matching funds, or a reduction in total claims payments of \$264 M.

The magnitude of state general fund cut allocated to Medicaid would likely determine a cut scenario. The LFO can not predict the level of cut to Medicaid if any at all, however possible scenarios could include reduction in eligible populations, services/program reductions, rate cuts, or other efficiencies. One of the larger optional payment programs include the Uncompensated Care Costs (UCC) program that pays Disproportionate Share Hospital (DSH) payments for eligible costs to certain providers, the majority of which are allocated to the public private partnership. See DSH Allocation in Graph 1 below.

**FY 15 DSH Allocation (Graph 1)**



\*Low-Income and Needy Care Collaboration Agreement (LINCCA)

\*\*Greater New Orleans Community Health Connection (GNOCHC)

## **FY 15 SGF Mid-Year Deficit Reduction Plan (Round 2)**

*Legislative Fiscal Office Staff*

The Revenue Estimating Conference (REC) met on 1/26/2015 and reduced the state tax revenue forecasts for the second time this fiscal year. The State General Fund (SGF) reduction totaled \$126 M; the REC also recognized an increase in Transportation Trust Fund transfers into the SGF in the amount of \$22.5 M, which had been approved as part of the FY 12 Deficit Reduction Plan (December 2011). As a result, the net SGF revenue forecast reduction totaled \$103.5 M. In response, the Division of Administration (DOA) originally offered a second mid year deficit elimination plan (Round 2 Plan) and presented the plan to the Joint Legislative Committee on the Budget (JLCB) on 2/20/2015, which anticipated SGF expenditure reductions totaling \$71 M, non-SGF expenditure reductions totaling \$32.5 M and revenue offsets to the SGF reductions totaling \$42.9 M for a net expenditure reduction of \$60.6 M. *However, due to the JLCB's rejection of proposed BA-7 #18 (State Police), as of this writing there is \$939,570 of the \$103.5 M deficit problem outstanding.*

*Note: The JLCB anticipated that the DOA would propose an alternative solution at the next JLCB meeting, (2/27/2015). However, the DOA has submitted a proposed State Police BA-7 for the 2/27/2015 JLCB meeting that essentially proposes the same proposal that was rejected by the committee on 2/20/2015.*

### **Rejecting BA-7 #18 (State Police)**

Pursuant to Title 39:75, BA-7 #18 within State Police originally provided that the Riverboat Gaming Enforcement Fund be reduced \$939,570 in order to assist in closing the projected FY 15 mid-year deficit (Round 2). In addition to this reduction, the proposed BA-7 also included a Riverboat Gaming Enforcement Fund reduction in the amount of \$6 M and a corresponding increase in Transportation Trust Fund (TTF) budget authority by a like amount (MOF substitution). This budgetary mechanism was proposed by the



TABLE 4

## NET SGF REDUCTIONS AND NET NON-SGF REDUCTIONS TO ALLEVIATE FY 15 DEFICIT (ROUND 2)

FY 15 SGF Revenue Forecast Reduction (1/26/2015)			(\$126,000,000)	Total SGF Revenue Reduction
TTF Transfer into the SGF (FY 12 Deficit Reduction Plan)			\$22,500,000	TTF Transfer to SGF
<b>Net FY 15 SGF Mid-Year Deficit Problem (Round 2)</b>			<b>(\$103,500,000)</b>	
	Executive Order	JLCB	Total	Action Needed
SGF Reductions	(\$67,066,176)	(\$3,937,784)	(\$71,003,960)	
Statutorily Dedicated Fund Reductions	\$0	(\$26,433,740)	(\$26,433,740)	
<i>Riverboat Gaming Enforcement Fund Reduction</i>		\$939,570	\$939,570	<i>Rejected in Committee</i>
SGR Reductions	\$0	(\$6,022,345)	(\$6,022,345)	
IAT Reductions	\$0	(\$39,955)	(\$39,955)	
<b>Sub-Total of Reductions</b>	<b>(\$67,066,176)</b>	<b>(\$35,494,254)</b>	<b>(\$102,560,430)</b>	<b>Need to solve for \$103.5 M</b>
Offset: Military Federal Funds	\$0	\$1,394,617	\$1,394,617	JLCB Approved
<b>Offset: Concealed Handgun Funds</b>	<b>\$0</b>	<b>\$939,570</b>	<b>\$939,570</b>	<b>Rejected in Committee</b>
Offset: LDR Self-generated Revenues or Fraud Initiatives (Overcollections Fund)	\$0	\$11,100,000	\$11,100,000	JLCB Approved
<i>Offset: DEQ Motor Fuels Underground Tank Fund (Overcollections Fund)</i>	<i>\$0</i>	<i>\$8,000,000</i>	<i>\$8,000,000</i>	<i>Removed in Committee</i>
Offset: Riverboat Gaming Enforcement Funds (Overcollections Fund) ( <i>See Note</i> )	\$0	\$8,200,000	\$8,200,000	JLCB Approved
Offset: Telephone Company Property Assessment Relief Fund (Overcollections Fund)	\$0	\$13,206,438	\$13,206,438	JLCB Approved
Offset: Construction Litigation Funds (DOA Auxillary Program)	\$43,000	\$0	\$43,000	Executive Order
2/20/2015 Committee Action: DEQ Motor Fuels Underground Tank Fund	\$0	(\$8,000,000)	(\$8,000,000)	JLCB Committee removed these funds from DHH's proposed BA-7.
2/20/2015 Committee Action: Concealed Handgun Funds	\$0	(\$939,570)	(\$939,570)	JLCB Committee rejected a State Police BA-7 that included these funds as backfill for State Police.
<b>Sub-Total of Revenue Offsets</b>	<b>\$43,000</b>	<b>\$33,901,055</b>	<b>\$33,944,055</b>	
<b>TOTAL NET IMPACT OF PLAN</b>	<b>(\$67,023,176)</b>	<b>(\$1,593,199)</b>	<b>(\$68,616,375)</b>	

\*Note: 2/20/2015 Joint Legislative Committee on the Budget action rejected the use of \$6 M of Transportation Trust Funds that were intended to be utilized within State Police's budget to offset the \$6 M Riverboat Gaming Enforcement Fund reduction within State Police. This \$6 M Riverboat Gaming Enforcement Fund reduction was intended to free up Riverboat resources to be transferred into the Overcollections Fund for expenditure within the Medicaid budget. Although the proposed budgetary mechanism that frees up \$6 M of Riverboat funds was rejected, this authority is still budgeted within the Medicaid program. Thus, these \$6 M Riverboat funds are currently appropriated in two places (State Police's budget and Medicaid's budget as Overcollections Fund).

DOA in order to "free-up" the \$6 M of reduced Riverboat Funds in order for these same funds to be transferred into the Overcollections Fund (2015 Legislative Session Funds Bill) for use as a SGF revenue offset within the Medicaid Program. Rejecting this BA-7 has a twofold fiscal impact. First, it removed \$939,570 of statutorily dedicated fund resources utilized to solve Round 2. The Round 2 Plan originally anticipated utilizing \$32,496,040 of non-SGF reductions (statutorily dedicated funds, SGR, IAT) while the remaining \$71,003,960 were SGF reductions. Rejecting this BA-7 effectively results in the projected deficit not being completely solved and technically not balanced in the amount of \$939,570. This is highlighted in yellow in Table 4. Second, removing the \$6 M Riverboat Gaming Enforcement Fund and TTF MOF substitution does not have direct impact to solving the Round 2 deficit. However, it effectively double encumbers the \$6 M of the same Riverboat Funds within State Police and Medicaid.

**Note: BA-7 #24, which impacts the Medicaid Program, was not amended by \$6 M to reflect the rejection of BA-7 #18. The amended version of BA-7 #24 still anticipates the program to receive \$8.2 M of Riverboat Gaming Enforcement Funds.**

#### Amending BA-7 #24 (Medicaid Program)

The JLCB amended BA-7 #24 by removing a DOA anticipated funding source of the Overcollection Fund. The committee removed the \$8 M funds sweep from the DEQ Motor Fuels Underground Tank Fund. These funds were anticipated to be utilized as revenue offset (backfill) within the program to offset a portion of the SGF mid-year cuts within the program. The removal of these funds from BA-7 #24 results in a net reduction to Medical Vendor Payments and may become a supplemental need during the 2015 Legislative Session. Removing these funds has no impact on solving the actual Round 2 deficit. This amended BA-7 impacts the amount of resources available to offset (backfill) the SGF mid-year cuts to Medicaid.

Table 4 on the previous page provides a depiction of the amended Round 2 plan. As previously mentioned, the items highlighted in yellow represent the amount of FY 15 mid-year problem left to be resolved.

### Transportation Trust Fund Impact

Of the \$26.5 M statutorily dedicated fund reductions associated with round 2, the Transportation Trust Fund (TTF) is being reduced approximately \$16.7 M including \$14.6 M to the capital outlay appropriation. The LFO assumes these reductions will be allocated to the Highway Priority Program. DOTD reports that the DOA will authorize the use of an additional \$5.5 M TTF-Regular recognized by the Revenue Estimating Conference (REC), \$5 M in proceeds from surplus property sales and \$500,000 in revenues from advertising on DOTD assets to backfill \$11 M of the proposed \$14.6 M capital outlay reduction in a subsequent action. This plan will require additional legislative action either through budget adjustment by the JLCB or supplemental appropriation by the legislature. The current REC estimate for the Transportation Trust Fund adopted on 1/16/2015 exceeds the recommendation used in constructing the current year budget allocations (adopted on 5/19/2014) by a total of \$18.2 M. The proposed reductions assume GEMS related savings of \$3 M in cost overrun reductions via implementation of a Quality Assurance and Control Engineering team and \$500,000 by utilizing DOTD personnel in place of outside design and construction engineers. Table 5 above is a summary of the aggregate TTF resources being utilized to solve for the two mid year plans along with the existing TTF funds currently budgeted within State Police. As reflected in Table 5, a total of \$94.1 M of TTF resources may be utilized in non-DOTD related expenditures.

Table 5			
	Round 1	Round 2	Total
TTF Operating Expenditure Reductions (BA-7# 15)	(\$6,104,000)	(\$2,071,000)	(\$8,175,000)
TTF Capital Outlay Expenditure Reductions (BA-7 #39)	\$0	(\$14,580,498)	(\$14,580,498)
TTF State Police Budget Authority Increase (BA-7 #18)	\$0	(\$6,000,000)	(\$6,000,000)
TTF SGF Transfer (FY 12 Mid Year Deficit Plan)	\$0	(\$22,500,000)	(\$22,500,000)
<b>SUB-TOTAL</b>	<b>(\$6,104,000)</b>	<b>(\$45,151,498)</b>	<b>(\$51,255,498)</b>
TTF EOB for State Police (before \$6 M Increase)			(\$59,872,208)
Potential Backfill of Capital Outlay Reductions (requires legislative action)			\$11,038,498
2/20/2015 JLCB Committee Action: Removed the \$6 M TTF appropriation originally proposed in BA-7 #18			\$6,000,000
<b>Total Anticipated Net FY 15 TTF Resources Not Being Expended in DOTD and/or in the Highway Priority Program</b>			<b>(\$94,089,208)</b>

on 1/16/2015 exceeds the recommendation used in constructing the current year budget allocations (adopted on 5/19/2014) by a total of \$18.2 M. The proposed reductions assume GEMS related savings of \$3 M in cost overrun reductions via implementation of a Quality Assurance and Control Engineering team and \$500,000 by utilizing DOTD personnel in place of outside design and construction engineers. Table 5 above is a summary of the aggregate TTF resources being utilized to solve for the two mid year plans along with the existing TTF funds currently budgeted within State Police. As reflected in Table 5, a total of \$94.1 M of TTF resources may be utilized in non-DOTD related expenditures.

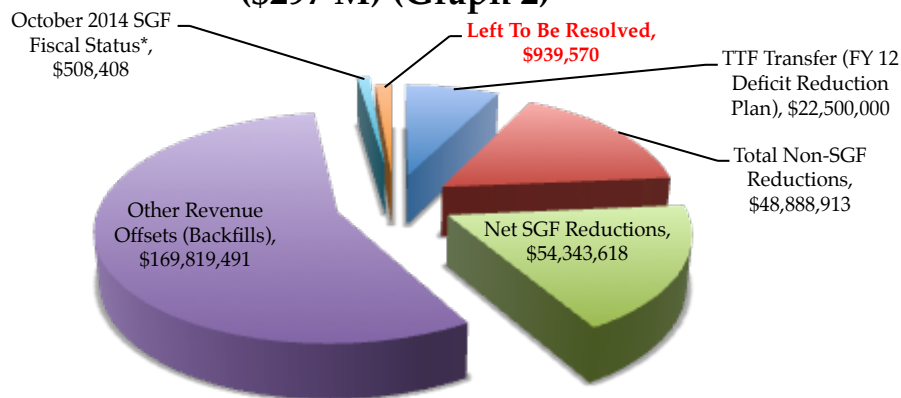
*Note: As previously discussed, at the 2/20/2015 JLCB meeting the committee rejected BA-7 #18, which would have appropriated an additional \$6 M of TTF resources within State Police.*

### Summary of Both FY 15 Mid-Year Deficit Reduction Plans

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The total FY 15 SGF revenue forecast reduction equates to \$297 M (\$171 M – November 2014, \$126 M – January 2015). Graph 2 is a depiction that illustrates that the majority of the FY 15 SGF deficit solution did not involve SGF funded expenditure reductions at all. In fact, the majority of the solution (81.7%) involves the use of other revenue offsets

### FY 15 SGF Mid-Year Solution For Rounds 1 & 2 (\$297 M) (Graph 2)



*\*Note: Approximately \$508,000 of FY 15 SGF resources was still available as was depicted in the Division of Administration (DOA) SGF fiscal status statement presented at the October 2014 JLCB meeting, which was one month prior to the SGF FY 15 revenue forecast being reduced.*

(backfills) and cuts to non-SGF expenditures (statutorily dedicated funds, SGR & IAT). In addition, there is \$939,570 of FY 15 mid-year problem outstanding, which will likely be addressed at the 2/27/2015 JLCB meeting.

### FY 16 Impact

Utilizing approximately \$170 M of other available resources for both FY 15 Mid-Year Deficit Reduction Plans and the \$22.5 M transfer from the TTF will result in a like amount of FY 16 SGF need unless another source is identified or the expenditures these resources are supporting are reduced. Table 6 to the right is an updated version of the LFO's FY 16 financing replacement list.

*Note: At the 2/20/2015 JLCB meeting, the committee amended BA-7 #24 by removing an \$8 M appropriation from the Overcollections Fund (original source being the DEQ Motor Fuels Underground Tank Fund). This \$8 M resource was intended to be utilized to offset SGF reductions within the Medicaid Program. To the extent another resource is identified during the supplemental appropriations bill process, the approximately \$1.2 B replacement list will grow.*

TABLE 6	
Program/Source	Potential Financing Replacement in FY 16 (in millions)
MVP - Overcollections Fund	\$266.3
MVP - Medicaid Trust Fund for the Elderly	\$232.7
MVP - 2013 Tax Amnesty Fund	\$156.5
Advanced Debt Payment - SGF	\$210.0
Bond Premium - SGF	\$34.2
Department of Revenue	\$20.0
TOPS Fund	\$22.0
Health Insurance High Risk Pool	\$16.0
WISE Fund	\$23.2
LA Lottery Reserves	\$9.0
FY 15 Deficit Reduction Plan (Round 1)	\$135.9
FY 15 Deficit Reduction Plan (Round 2)	\$33.9
<b>Sub-Total</b>	<b>\$1,159.7</b>
TTF SGF Transfer (FY 12 Deficit Reduction Plan)	\$22.5
<b>TOTAL</b>	<b>\$1,182.2</b>

## GENERAL GOVERNMENT

### Outstanding Fund Balance Transfers

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Since FY 11 there have been 4 funds bills (Act 378 of 2011, Act 597 of 2012, Act 420 of 2013, Act 646 of 2014) and a deficit reduction plan (FY 12) enacted that require the State Treasury to transfer fund proceeds from various statutorily dedicated funds in order to balance the state budget. To date, there is at least \$107.9 M of various prior year fund transfers that have not taken place and according to the State Treasury are still outstanding. Although the accounting books for these fiscal years have been closed, the State Treasury is of the legal opinion that these transfers are an outstanding obligation of the respective statutorily dedicated fund. Since the prior legislative acts are still effective and the fact that all of these funds are still not available to transfer, State Treasury is still seeking to transfer these outstanding proceeds. Table 7 on the next page provides a summary of these outstanding fund transfers.

A recent example of this issue, as was indicated in the January edition of *Focus on the Fisc*, is \$22.5 M of Transportation Trust Funds (TTF) transferred to the SGF in FY 15 that was officially recognized by the Revenue Estimating Conference (REC) in January 2015. These resources were originally to be utilized to help "solve" the FY 12 mid-year deficit, originally reported to the Joint Legislative Committee on the Budget (JLCB) in December 2011. At that time, the FY 12 SGF mid-year deficit problem was \$251.3 M, which consisted of the following:

(\$197.7 M)	SGF revenue forecast reduction (November 2011 adopted revenue forecast)
(\$42.6 M)	MFP Underfunding Due to October 2011 Child Count
\$2.9 M	Calculated SGF available after HB 1 enrollment (monthly fiscal status report)
<u>(\$13.8 M)</u>	<u>FY 11 SGF End of Year Deficit</u>
(\$251.3 M)	Total FY 12 SGF Deficit

At that time (December 2011), the Division of Administration (DOA) presented the FY 12 Deficit Elimination Plan to the JLCB, which consisted of \$140.9 M of SGF Executive Order reductions (BJ 2011-25), \$72.2 M of SGF reductions approved by the JLCB, \$119.3 M of ad hoc resources utilized to offset SGF reductions and \$38.2 M of statutorily dedicated fund expenditure reductions approved by JLCB, of which the TTF reduction (\$24.4 M) represented 63% of the total statutorily dedicated fund expenditure reductions.



R.S. 39:75 (Avoidance of Budget Deficits) provides that once the governor has reduced the SGF by at least seven-tenths of one percent and a deficit still exists, the governor, with approval by the JLCB, can reduce statutorily dedicated funds by up to 5%. Financing becomes available from these statutorily dedicated funds after expenditures are reduced and is the reduced amount is eventually transferred into the SGF to offset the SGF revenue forecast reduction, likely during the 14th period (August) (end of year accounting FY close-out).

Table 7

Outstanding Fund Sweep Transfers (Source: State Treasury)	Act 378 of 2011**	FY 12 Deficit Reduction Plan*	Act 597 of 2012***	Act 420 of 2013****	Act 646 of 2014*****	TOTAL
Transportation Trust Fund - Regular	\$0	\$1,888,350	\$0	\$0	\$0	\$1,888,350
Youthful Offender Management Fund	\$0	\$22,978	\$0	\$0	\$0	\$22,978
Archeological Curation Fund	\$8,856	\$2,000	\$0	\$0	\$0	\$10,856
Poverty Point Reservoir Development Fund	\$0	\$45,125	\$0	\$0	\$0	\$45,125
Audubon Golf Trail Development Fund	\$0	\$2,375	\$0	\$0	\$0	\$2,375
Academic Improvement Fund	\$0	\$0	\$86,911	\$0	\$0	\$86,911
Tobacco Tax Health Care Fund	\$325,715	\$227,502	\$0	\$233,334	\$0	\$786,551
Bossier Parish Truancy Fund	\$5,313	\$0	\$0	\$0	\$0	\$5,313
Small Business Surety Bonding Fund	\$0	\$0	\$0	\$0	\$44,873	\$44,873
DHH Facility Support Fund	\$0	\$0	\$0	\$0	\$238	\$238
2% Fire Insurance Fund	\$0	\$0	\$0	\$0	\$1,412,389	\$1,412,389
Southeast LA Hospital Property Sale	\$0	\$0	\$0	\$17,840,000	\$0	\$17,840,000
SGR Department of Revenue	\$0	\$0	\$0	\$1,190,961	\$0	\$1,190,961
Motor Fuels Underground Storage Tank Trust Fund	\$0	\$0	\$0	\$0	\$9,000,000	\$9,000,000
LA Fire Marshal Fund	\$0	\$0	\$0	\$1,338,599	\$0	\$1,338,599
Right To Know Fund	\$0	\$0	\$0	\$175,500	\$0	\$175,500
Explosives Trust Fund	\$19,646	\$0	\$0	\$0	\$0	\$19,646
DPS Police Officer Fund	\$238,006	\$0	\$0	\$0	\$0	\$238,006
Incentive Fund	\$0	\$0	\$0	\$3,962,652	\$0	\$3,962,652
Legislative Capitol Technology Enhancement Fund	\$6,757,502	\$0	\$0	\$0	\$0	\$6,757,502
Energy Performance Contract Fund	\$0	\$0	\$0	\$153,933	\$0	\$153,933
Reptile & Amphibian Research Fund	\$0	\$115	\$0	\$0	\$0	\$115
Public Oyster Seed Ground Development Account	\$0	\$179,700	\$0	\$0	\$0	\$179,700
Utility & Carrier Inspection Supervision Fund	\$0	\$186,289	\$592,400	\$0	\$0	\$778,689
Transfer non-recurring Overcollections Fund to UAL	\$0	\$0	\$0	\$0	\$6,000,000	\$6,000,000
Transfer non-recurring Overcollections Fund to Rainy Day Fund	\$0	\$0	\$0	\$0	\$25,000,000	\$25,000,000
Transfer non-recurring Overcollections Fund to WISE Fund	\$0	\$0	\$0	\$0	\$11,000,000	\$11,000,000
Transfer LA Health Plan board funds to Mega-Project Fund*****	\$0	\$0	\$0	\$0	\$20,000,000	\$20,000,000
DOA identified A&M savings transferred into Overcollections Fund	\$0	\$0	\$0	\$0	???????	\$0
<b>TOTAL OUTSTANDING FUNDS SWEEPS</b>	<b>\$7,355,038</b>	<b>\$2,554,434</b>	<b>\$679,311</b>	<b>\$24,894,979</b>	<b>\$72,457,500</b>	<b>\$107,941,262</b>

\*In December 2011, the DOA presented the FY 12 Deficit Elimination Plan to the JLCB, which consisted of \$140.9 M of SGF Executive Order reductions (BJ 2011-25), \$72.2 M of SGF reductions approved by the JLCB, \$119.3 M of ad hoc resources utilized to offset SGF reductions and \$38.2 M of statutorily dedicated fund expenditure reductions approved by JLCB.

\*\*Act 378 of 2011 outstanding fund transfers are to be transferred to the Medical Assistance Trust Fund

\*\*\*Act 597 of 2012 outstanding fund transfers are to be transferred to the SGF

\*\*\*\*Act 420 of 2013 outstanding fund transfers are to be transferred to the Overcollections Fund & SGF

\*\*\*\*\*Act 646 of 2014 outstanding fund transfers are to be transferred to the Overcollections Fund

\*\*\*\*\*Act 646 provides for the transfer of LA Health Plan board funds to Mega-Project Funds. \$20 M is currently appropriated in FY 15.

Note: At this point in time, we do not know the specific DOA identified A&M savings that will be transferred into the Overcollections Fund

Upon approval by JLCB of statutorily dedicated fund expenditure reductions to resolve a mid-year deficit, R.S. 39:75(C)(2)(e) allows the state treasury to transfer these reduced amounts from the statutorily dedicated fund to the SGF to solve the deficit. After the statutorily dedicated budget authority reductions, financing is supposed to be available as a result the expenditure reduction for transfer to the SGF to close the deficit. However, in FY 12 the TTF never generated enough revenue collections above appropriated expenditures even after the mid-year reduction. Thus, State Treasury could not transfer these funds to the SGF until now (September of 2014 – FY 15) because these funds have not been available. For context, in FY 12 the state finished with a \$113.2 M SGF surplus. To the extent these TTF resources would have been transferred to the SGF during FY 12, the \$113.2 M surplus would have been \$24.4 M greater, or \$137.6 M.



**House Rule 7.19 (Geymann Rule) Resources Versus Replacement Financing Decision List**

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Although HR 7.19 contains a definition of “one-time money,” the rule does not clearly identify the significant financing decisions that will have to be made in the next budget year. Due to this issue, during the 2014 Regular Legislative Session (FY 15 budget development process), the LFO not only provided the legislature the HR 7.19 list to comply with the House Rule, but also provided a list of significant potential FY 16 financing replacements as a result of the development of the FY 15 budget. For context, Table 8 provides a comparison of HR 7.19 defined resources in the budget to the replacement financing needs. In all cases, the HR 7.19 definition of “one-time” money is not indicative of the all the resources contained in the budget that may require other resources in the subsequent fiscal year.

Table 8

	HR 7.19 Defined One-time Resources	Replacement Financing Need
FY 15 Budget*	\$50.5	\$1,182.2
FY 14 Budget*	\$86.5	\$582.6
FY 13 Budget	\$272.5	\$443.5
FY 12 Budget	\$315.8	\$547.6

Source: Prior year Division of Administration (DOA) continuation budget documents & LFO fiscal highlights documents.

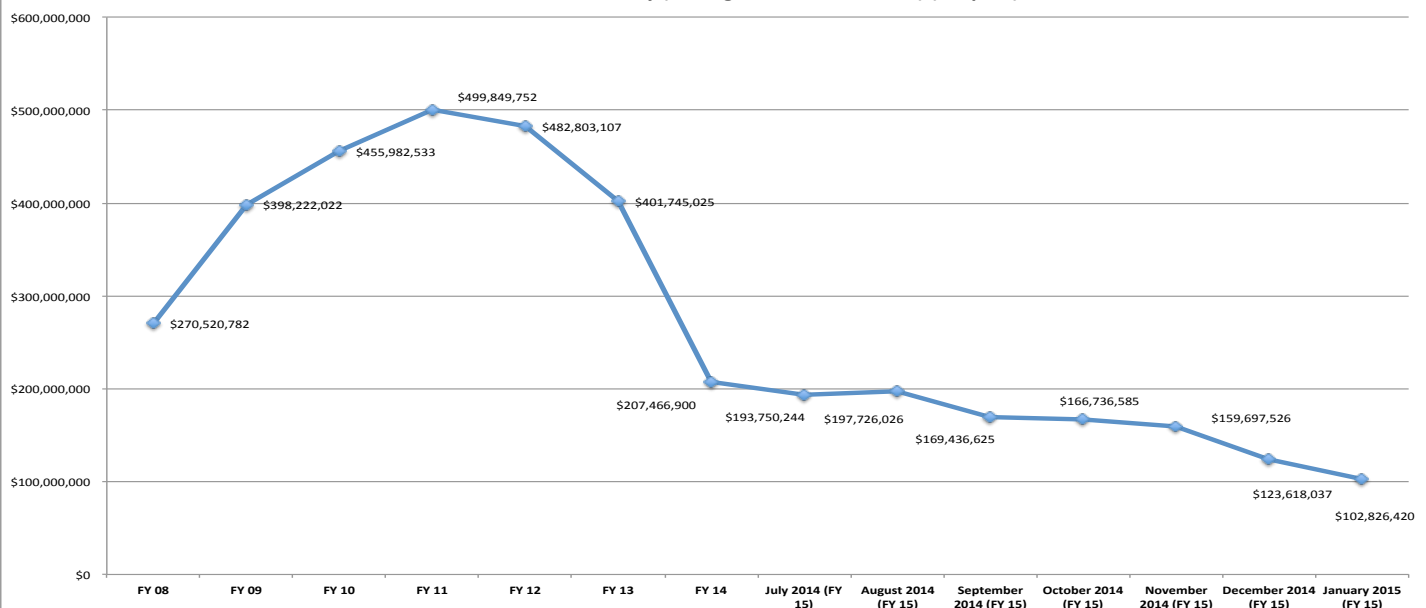
\*Act 419 of 2014 requires the REC to officially forecast all state funds, which excludes REC projected funds from the one-time money definition contained within House Rule 7.19. This is the reason the HR 7.19 list of resources was significantly reduced from FY 13 to the current year.

**Office of Group Benefits (OGB) Update (February 2015)**

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Graph 3 below depicts the OGB Fund Balance History from FY 08 to FY 14 along with the ending balance for the months of July 2014 through January 2015 (FY 15). During the month of January, OGB's fund balance lost approximately \$20.8 M, or a negative 17% fund balance change. Since the beginning of FY 15, OGB's expenditures have been approximately \$104.6 M more than actual revenue collections through January 2015. This has resulted in the OGB fund balance decreasing from \$207 M (beginning of FY 15) to \$102.8 M (through January 2015). The decrease equates to an updated FY 15 monthly burn rate of approximately \$14.9 M per month, which equates to an increase from the December 2014 monthly burn rate of \$13.9 M per month. OGB's cash on hand through January 2015 is approximately \$192.1 M. Table 9 on the next page portrays the monthly OGB fund balance impact in FY 15.

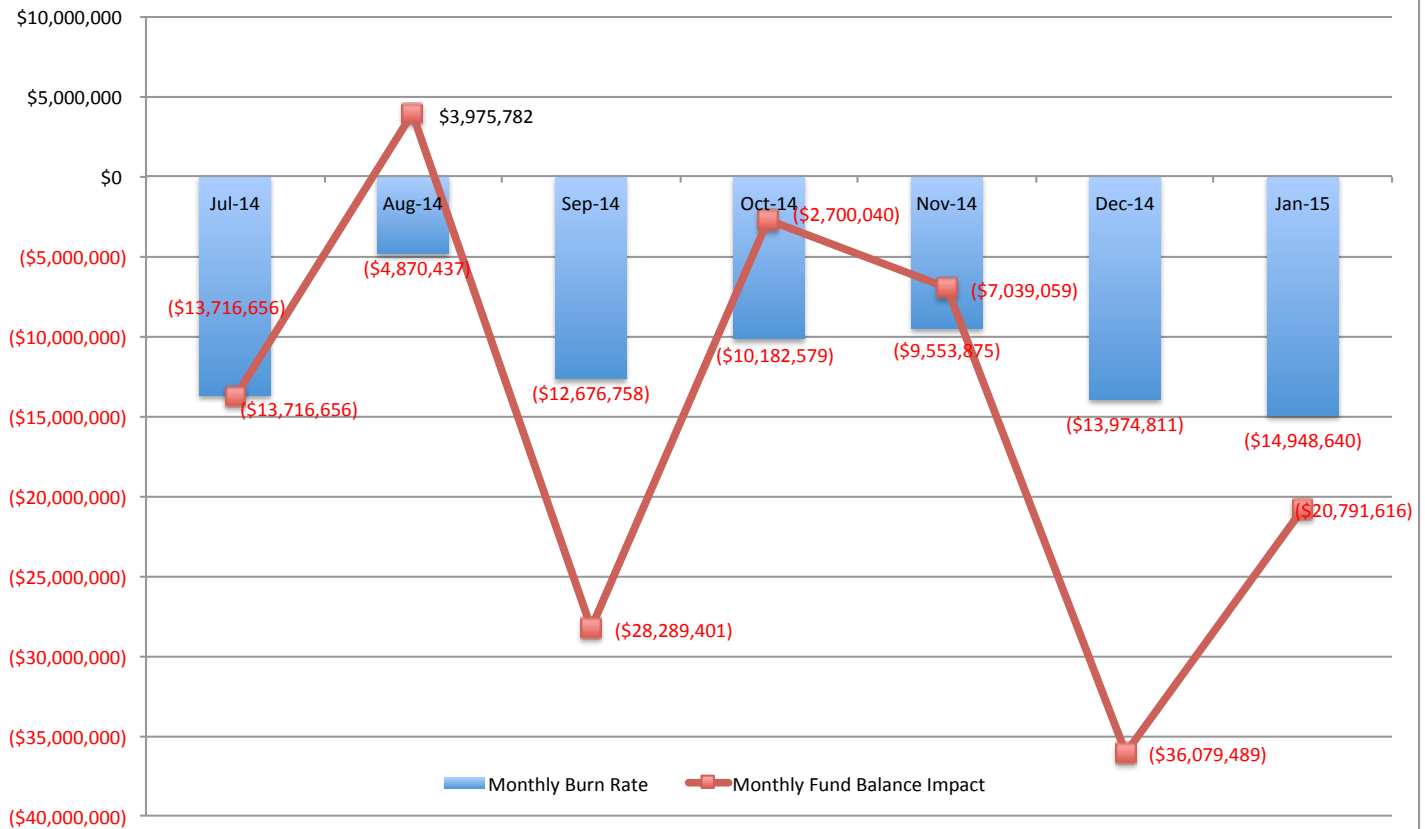
OGB Fund Balance History (ending FY &amp; FY 15 To Date) (Graph 3)



Graph 4 below depicts the FY 15 Monthly OGB fund balance burn rate along with the monthly fund balance dollar change. To the extent the burn rate does not change, OGB's FY 15 ending year fund balance could be less than \$30 M. However, once the new plan design changes go into effect on March 1, 2015, the current burn rate of \$14.9 M per month may be reduced. These changes may result in the OGB's FY 15 year-end fund balance equating to some amount greater than \$60 M.

Table 9	
Month	Fund Balance Impact
July 2014	(\$13,716,656)
August 2014	\$3,975,782
September 2014	(\$28,289,401)
October 2014	(\$2,700,040)
November 2014	(\$7,039,059)
December 2014	(\$36,079,489)
January 2015	(\$20,791,616)
<b>TOTAL</b>	<b>(\$104,640,479)</b>

**FY 15 OGB Monthly "Burn Rate" & OGB Fund Balance Impact (Graph 4)**



Graph 5 on the next page depicts FY 15 monthly OGB revenues, expenditures, fund balance and percentage change in fund balance through January 2015. January 2015 expenditure activity utilized approximately \$20.8 M of OGB's current fund balance to pay expenditures, which is a decrease of fund balance use from December 2014. Approximately \$36.1 M of the fund balance was utilized in December 2014, which is illustrated in the negative 23% change of OGB overall fund balance through the month of December. For the month of January that negative percent change slightly decreased to a negative 17% change.

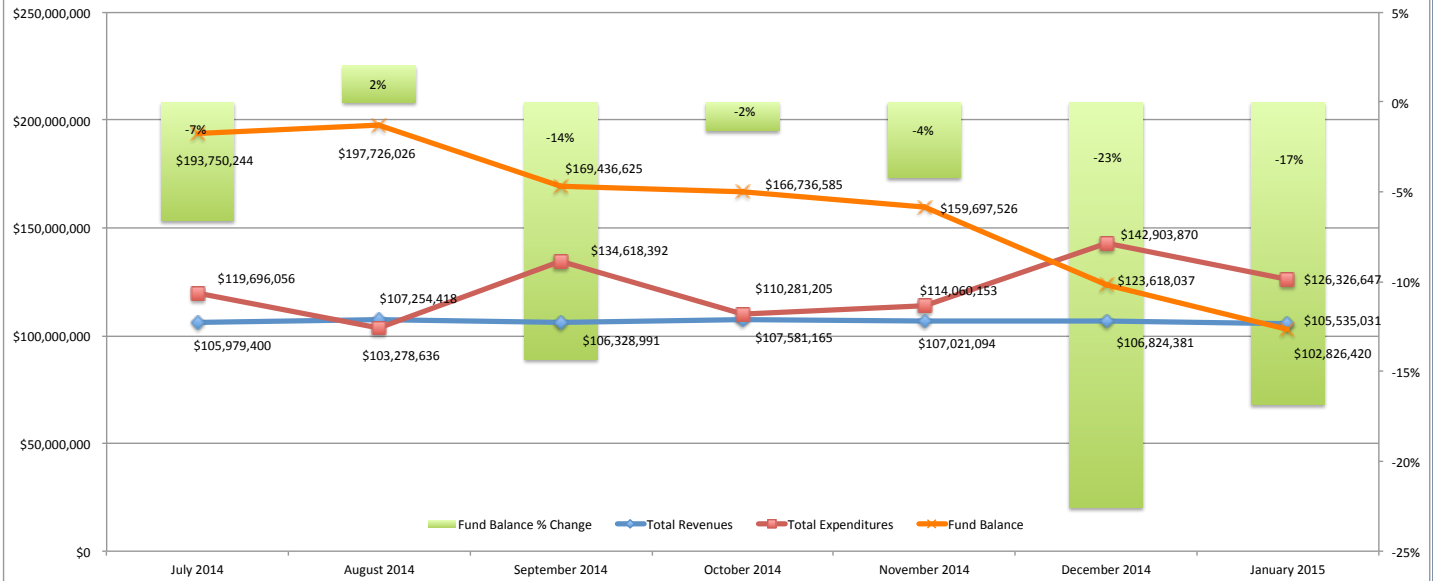
Through January 2015 for every \$1 of revenue OGB collects, the program is currently expending on average approximately \$1.14. See Table 10 to the right for more detailed information.

Graph 6 on the next page is a depiction of monthly medical claims expenditures through January 2015 (PPO, HMO and MedImpact Rx claims only) for FY 15. These specific expenditures decreased by approximately 12% from the December 2014 data.

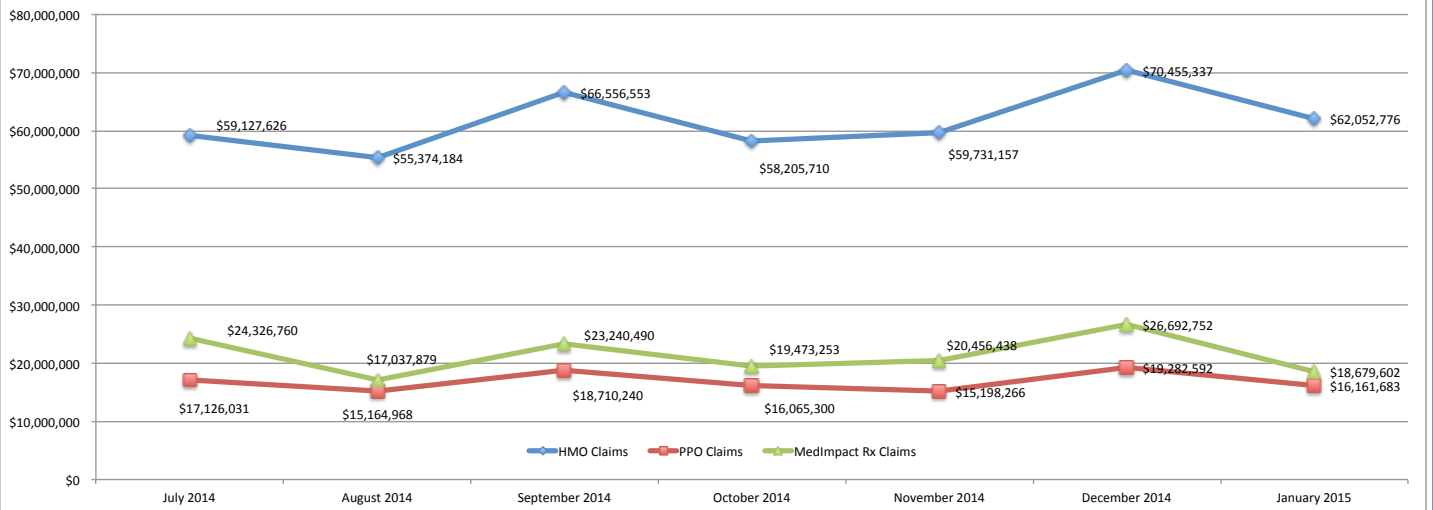
**For Every \$1 Collected (Table 10)**

Month	Expended
Jul-14	\$1.13
Aug-14	\$0.96
Sep-14	\$1.27
Oct-14	\$1.03
Nov-14	\$1.07
Dec-14	\$1.34
Jan-15	\$1.20
<b>Average</b>	<b>\$1.14</b>

**FY 15 Monthly Revenues, Expenditures, Fund Balance and % Change in Fund Balance (Graph 5)**



**FY 15 Monthly Medical Claims (HMO, PPO Plans Only) & Prescription Drug Claims (MedImpact) (Graph 6)**



### OGB Enrollment by Plan (2015 Plan Year)

Table 11 below includes enrollment information provided to the Legislative Fiscal Office by the OGB of the health plan choice by its members during annual enrollment. The new health plans are effective March 1, 2015.

TABLE 11 REGULAR PLANS	ACTIVE ENROLLEES				RETIRED ENROLLEES				ALL ENROLLEES			
	Plan Year 2014	Plan Year 2015	Difference	% Difference	Plan Year 2014	Plan Year 2015	Difference	% Difference	Plan Year 2014	Plan Year 2015	Difference	% Difference
Magnolia Open Access (PPO)	10,275	8,569	(1,706)	-16.6%	24,885	23,741	(1,144)	-4.6%	35,160	32,310	(2,850)	-8.1%
Magnolia Local	0	405	405	N/A	0	204	204	N/A	0	609	609	N/A
Magnolia Local Plus (HMO)	67,084	64,313	(2,771)	-4.1%	24,358	24,602	244	1.0%	91,442	88,915	(2,527)	-2.8%
Pelican HRA 1000	0	4,482	4,482	N/A	0	924	924	N/A	0	5,406	5,406	N/A
Pelican HSA 775 (CDHSA)	401	2,145	1,744	434.9%	0	0	0	N/A	401	2,145	1,744	434.9%
Vantage MHHP	2,910	3,062	152	5.2%	546	566	20	3.7%	3,456	3,628	172	5.0%
<b>Regular Plans Subtotal</b>	<b>80,670</b>	<b>82,976</b>	<b>2,306</b>	<b>2.9%</b>	<b>49,789</b>	<b>50,037</b>	<b>248</b>	<b>0.5%</b>	<b>130,459</b>	<b>133,013</b>	<b>2,554</b>	<b>2.0%</b>

## Department of Corrections – GEMS Recommendations

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The Alvarez and Marsal Government Efficiencies Management Support (GEMS) Report, which was completed in May 2014, recommended several cost savings measures for the Department of Corrections (DOC). Targeted savings from the recommendations total \$9.5 M; and actual projected savings are \$10.1 M in FY 15. The following savings are based on the \$24.39 per day that DOC is required to pay local governmental units to house a state inmate, marginal costs of \$12.00 per day, per inmate in a state prison, and \$11.25 per day, per inmate to participate in a Transitional Work Program.

The following is an explanation of each recommendation that is included in the GEMS report, including the targeted savings. The progress made by DOC in implementing each recommendation and the projected savings is included in italics. The target savings and projected savings are noted in Table 12.

Expand DOC Certified Treatment Rehabilitation Program (CTRP): Savings based on implementation of a two-part initiative to expand

the impact of the CTRPs; (1) Increase the number of CTRPs available at both the state and local levels that allows inmates to earn credits for participating in community and education programs. The targeted cost savings is \$5.9 M and is based on 2,727 offenders receiving 90 days CTRP credit. Due to investment costs of hiring 25 T.O. for reentry/transition for the local jails at a cost of \$2.1 M, the net projected savings for this component is \$3.8 M. (2) Conduct an audit of all currently certified programs and reassess the number of credit days inmates can earn per program in order for offenders to earn an additional 20 credit days. The targeted cost savings of \$2.7 M is based on 5,590 offenders receiving 20 additional days of CTRP credit. The total targeted savings for these 2 initiatives in FY 15 is \$6.5 M.

*The realized savings for this recommendation as of December 2014 is \$3.8 M and the total projected savings for FY 15 is \$7.3 M. Projected savings are higher than targeted savings due to more opportunities realized for offenders to earn credits. The number of CTRP programs at state prisons and parish jails has increased more than expected. In addition, the overall number of credit days offenders are earning has increased more than anticipated after audits of existing programs were completed.*

Expand Transitional Work Programs in Orleans and Jefferson Parishes: (Savings are based on increasing access to Transitional Work Programs in Orleans and Jefferson Parishes between 100 to 150 slots at each location.) Transitional work programs allow low-risk inmates to serve the last portion of their sentences in minimum-security settings while employed in the community. Decreasing the number of state inmates in local housing by 280 offenders for 223 days will decrease expenditures by \$1.5 M. 223 days represents 7.5 months of implementation for this recommendation. These 280 offenders placed in transitional work programs at \$11.25 per day for 223 days will cost \$702,450. The targeted net savings for this recommendation is \$820,462 in FY 15.

*Actual projected savings for FY 15 is \$539,000, which is approximately \$282,000 less than targeted savings. Projected savings are lower than targeted savings due to the fact that participation will not increase in Jefferson Parish. The Jefferson Parish Council has not given site approval which has caused delays in implementing a program in Jefferson Parish. However, participation has increased in Beauregard, Grant, and Union Parishes to offset these delays.*

Expand Re-Entry Services Program: (Savings are based on increasing the number of regional centers that offer reentry programs from 3 to 11.) These centers offer inmates nearing release from prison access to a 90 to 180-day training program that mirrors the 100-hour pre-release curriculum currently offered to

Recommendation Name	Target Savings in FY 15	Projected Savings in FY 15
Expand DOC Certified Treatment & Rehabilitation Program	\$6,582,000	\$7,300,000
Expand Transitional Work Program in Orleans and Jefferson Parishes	\$821,000	\$539,000
Expand Reentry Center Program	\$643,000	\$726,000
Expand Day Reporting Centers	\$205,000	\$282,000
Increase Use of Self-Reporting	\$1,020,000	\$1,020,000
Increase DOC Span of Control	\$217,000	\$217,000
<b>Total</b>	<b>\$9,488,000</b>	<b>\$10,084,000</b>



offenders in state institutions. FY 15 savings include \$2,001,931 realized from a decrease of 912 offenders in local housing. Investment costs are \$300,000 for the Second Chance Act Program and \$1 M for the four additional reentry centers operating for a partial year. The targeted net savings for this recommendation is \$643,728 in FY 15.

*As of December 2014, three reentry centers have opened in Lafayette, Rapides and Madison Parishes. The Franklin Parish reentry center opened on January 1, 2015. The remaining four centers will open throughout FY 16. The current projected savings for FY 15 is \$726,000. Projected savings are higher than targeted savings due to centers opening sooner than expected.*

Expand Day Reporting Centers: (Savings are based on expanding the Day Reporting Center program to 200 parolees per year in an additional five probation and parole districts that provide intense supervision and support.) These districts include Covington, Lafayette, Monroe, Lake Charles, and Alexandria. DOC will issue an RFP to award contracts to manage the new Day Reporting Centers statewide at an annual cost of \$485,000 per year per center. A full year savings would be \$3.2 M from a decrease of 273 offenders in local housing and 186 offenders in state facilities. The targeted savings for three months in FY 15 is \$811,255. Investment costs are \$606,250 for the five additional reentry centers operating for three months. The targeted net savings for this recommendation is \$205,005 in FY 15.

*A day reporting center was opened in Lafayette on September 1, 2014. RFPs have been submitted to DOA for Alexandria and Monroe with a proposed opening date of April 1, 2015 and for Covington and Lake Charles with proposed opening dates of July 1, 2015. The current projected savings for FY 15 is \$282,000. Projected savings are higher than targeted savings since the Lafayette reporting center opened earlier than planned.*

Increase Use of Self-Reporting: (Savings are based on the utilization of self-reporting supervision status for the lowest-risk offenders from 5% to 10% of the total probation and parole population currently under supervision.) DOC's Adult Probation and Parole is responsible for the community supervision of approximately 70,000 individuals. Approximately 3,500 or 5% are supervised under what is called "self-report status." Increasing the utilization of self-reporting supervision status by lowest risk offenders, allows DOC to reduce caseloads among Probation and Parole officers. As a result, increased supervision reduces recidivism in higher risk parolees. By increasing utilization of self-reporting by lowest risk offenders, 115 high-risk offenders are projected to not recidivate for a targeted savings in the amount of \$1 M.

*A projected savings in the amount of \$1,023,771 will be realized by the end of FY 15.*

Increase DOC Span of Control: (Savings are based on increasing supervisors' span of control through attrition.) The current "span of control" or ratio of supervisors to staff is 1:3.7. Savings result from increasing span of control from 1:4 to 1:4.5. This recommendation does not result in a reduction in TO but conversion of supervisor positions to line staff positions when they become available. The average annual DOC salary and related benefits for supervising staff is \$75,016. For each supervisor position eliminated, DOC has hired staff positions since the beginning of the fiscal year at an average \$55,000 salary and related benefits per position. The targeted savings for this recommendation in FY 15 is \$217,000.

*A total of 10 positions were converted to staff positions in July 2014 and all have been filled. The projected savings in the amount of \$217,000 will be realized by the end of FY 15.*